GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2957
ANSWERED ON:12.08.2005
INTEREST RATE
Moorthy Shri A.K.

Will the Minister of FINANCE be pleased to state:

(a) whether lending rate of interest are still very high as compared to USA, China and other developed and developing countries;

(b) if so, the reasons therefor; and

(c) the steps taken to reduce lending rates by banks to the customers?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI S. S. PALANIMANICKAM)

(a),(b)&(c) : While information on the prevailing rates of interest on loans advanced in developed and developing countries, including USA & China are not readily available, the Reserve Bank of India(RBI) has taken the following steps to reduce rates of interest on loans extended in India.

(i) Interest rates on loans given by Commercial Banks have been deregulated, except that the interest rate on loans up to Rs.2 lakh should not exceed the Benchmark Prime Lending Rate (BPLR) of the banks concerned. Commercial banks are, therefore, free to decide their lending rates on loans above Rs.2 lakhs subject to the announcement of BPLR. Banks are also free to lend at sub-BPLR rates to creditworthy borrowers based on an objective and transparent policy, subject to the approval of their Boards.

(ii) The Indian Banks` Association (IBA) advised all Public Sector Banks (PSBs) to reduce their lending rate to a single digit rate of not more than 9% per annum on crop loans up to a ceiling of Rs.50,000/-. The single digit lending rate is expected to benefit most of the crop loan account holders and cover almost all small and marginal farmers.

(iii) Further RBI has initiated the following steps to give the benefits of softer interest rate to the SSI sector: -

(a) As per the announcement made in the Union Budget, 2003-04, IBA have advised the banks to adopt the interest rate band of 2% above and below its PLR for secured advances.

(b) As per the decision of the Standing Advisory Committee (SAC) on Credit Flow to SSI Sector, banks have been advised to set the interest rate on advances keeping in view the prevailing general southward movement in interest rates. The Committee has also advised the banks to fix at least 3 slabs of rate of interest, for loans up to Rs.50,000, between Rs.50,000 & Rs.2 lakh and above Rs.2 lakh.